



As reprinted from 10/02/2008

Forecast: No quick recovery



Phoenix homeowners and businesses shouldn't anticipate an economic recovery for at least year, after the last wave of subprime mortgages reset and the Valley works its way through 67,000 new homes that are uninhabited and built without a market to buy them.

The Arizona economy and its main driver, real estate, will hit rock bottom in the third or fourth quarter of 2009, and a national recovery won't begin until the first part of 2010.

That's according to Arizona State Treasurer Dean Martin and national economist Don Reynolds, who addressed more than 1,200 attendees of SRP's 2009 Economic Forecast on Thursday. They also said financial troubles -- both nationally and locally -- won't end soon.

More gloomy headlines are expected, too, as the U.S. financial system teeters on a faultline of poor economic indicators that are affecting developed nations everywhere, they said.

"It's really almost a psychological event," Reynolds said.

Many of the event attendees who filled a ballroom at the Arizona Biltmore Resort & Spa were looking for a sliver of sunshine during the two-and-a-half hour event, but found only clouds and storms in next year's forecast.

Reynolds, a charismatic Texan, dressed in blue-striped suit with a gold pocket chain, and a maroon and white-dotted bow tie, brought little reassurance that the credit crunch, which has strangled lending, capital improvements and business expansion, will alleviate.

Reynolds, founder and principal of the Texas consultant company 21st Century Forecasting, has studied more than 400 years of economic history and said 34 of 42 developed countries he tracks are showing an economic decline.

"What is going on the U.S. is a global event," he said. "It's a credit issue, a credit crunch the likes we have not seen."

Not seen, but surely felt.

Following the collapse of investment house Bear Stearns six months ago, Wall Street has undergone a cataclysmic transformation — primarily in the past month, as the government took ownership of Freddie Mac and Fannie Mae; IndyMac Bank was shut down; Lehman Brothers filed for the largest bankruptcy in history; Washington Mutual became the largest bank failure ever; Bank of America gobbled up Merrill Lynch; and Citigroup Inc. took over Wachovia Corp.

"It's an extraordinary list," Reynolds said.

While the credit crisis is the main concern now, its domino affect was generated and exacerbated by the real estate crash, the fundamental root of the nation's economic troubles.

And Phoenix was ground zero.

Following the tech bubble burst at the beginning of the decade, eager investors placed their bets on real estate in growth markets here and in California, Nevada and Florida.

"There was an opportunity to make money in Arizona," Martin said.

Investors flipped houses like burgers at a barbecue, sometimes pulling in \$30,000 to \$50,000 at every turn. But as more new homes came on the market, supply didn't meet demand — a simple equation that won't be balanced in Arizona for years.

The hardest hit areas are in the outskirts of metro Phoenix, where infrastructure is lacking. To provide some perspective, when Starbucks announced it was closing 600 of its 11,000 stores across the country, the Seattle-based coffee chain only announced one shut down in Arizona. That was in Eloy, a far East Valley suburb that abruptly stopped growing and attracting new residents.

It's a phenomenon plaguing the entire state, which has become accustomed to high growth rates, but now, Midwesterners and East Coast natives can't sell their homes to move to the sunny, warm climate of Arizona, Martin said.

This year, Salt River Project expects negative year-over-year growth and has only added two residential customers — the slowest growth rate in the past 50 years, according to Mark Bonsall, chief financial officer for the public utility.

The real estate woes also have cut into employment here.

Overall job losses in 2008 and 2009 is expected to hit 47,500, with the majority of those decreases occurring this year (34,000). Employment reductions for 2009 are projected at 13,500, according to the latest figures released Thursday by the Arizona Department of Commerce.

Current economic conditions, marked by higher commodity and health care costs, stagnant incomes and a tightening credit market, all are negatively impacting consumer spending and industries that are heavily reliant on consumer purchases, such as trade, transportation, leisure and hospitality.

Amid the clouds of darkness, education and health services are expected to gain 10,700 jobs through the end of 2008 and an additional 7,800 in 2009. The mining industry, although small, also is projected to continue gains.

"We will get out of this," Martin said, but "we should not have been in this economic cycle."

by Chris Casacchia